

1.94  
Ad 472 Rh

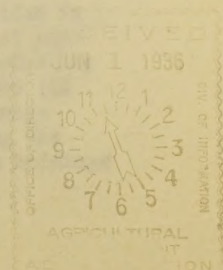
403-8

Washington

May 29, 1936

A REVIEW OF BUSINESS CONDITIONS  
Confidential

Agricultural-Industrial Relations Section  
A.A.A.





A REVIEW OF BUSINESS CONDITIONSIndustrial Production

As anticipated, industrial production recovered sharply in April to 100 percent (preliminary) of the 1923-5 average as compared with 95 percent (revised) in March. Thus over half of the 11 point decline which occurred during the preceding three months was re-traced in April. Though a portion of this advance must be regarded as a rebound from adverse March weather and flood conditions, the general character of improvement leaves little doubt of its fundamental nature.

Of the ten seasonally corrected general Federal Reserve Board business indexes for which preliminary April figures are available, only one--department store sales--declined; likewise only one of the nine selected industry indexes--silk deliveries--receded. Large gains were common to production of both manufactures and minerals, and to residential building and carloadings.

That April gains in production, though large, have been retained is suggested by the weekly production index contained in the confidential weekly report of the Department of Commerce to the Secretary. This index averaged slightly higher for the first half of May than in April. Similarly, the New York Times weekly business index reached 100 (estimated normal=100) for the week of May 9th and 100.3 for the May 16th week. This is the first time in six years--since the week of May 3, 1930--that this index has been up to the estimated normal line. The average of 100 for the first half of May compares with 98½ for April, suggesting, as does the Department of Commerce production index, that April gains have been fully retained or possibly extended somewhat.

National Income, Excluding Agriculture

In line with increased industrial production non-farm labor income has completely recovered the loss sustained in February. At an average of 71.7 percent of the 1929 average for the first four months of 1936, labor income was up 3 percent (after seasonal correction) from the last 4 months of 1935 and 8 percent when compared with the first 4 months of 1935. Despite improvement in labor income, some recession in total non-farm national income is estimated for April owing to a shift in the time of interest payments on the Federal debt. This shift, brought about by refunding operations, resulted in a March to April drop of \$58,500,000 (45 percent) in Federal debt service as contrasted with an average March to April increase of \$83,500,000 (153 percent) during the preceding five years. The actual recession in income from holdings



A REVIEW OF BUSINESS CONDITIONSIndustrial Production

As anticipated, industrial production recovered sharply in April to 100 percent (preliminary) of the 1923-5 average as compared with 85 percent (revised) in March. Then over half of the 11 point decline which occurred during the preceding three months was reversed in April. Though a portion of this advance must be regarded as a rebound from adverse March weather and flood conditions, the general character of improvement leaves little doubt of the fundamental nature.

Of the few seasonally corrected General Federal Reserve Board business indexes for which preliminary April figures are available, only two--department store sales--declined; likewise only one of the nine selected industry indexes--all deliveries--needed. Large gains were common to production of both manufactures and minerals, and to residential building and construction.

That April gains in production, though large, have been retained is suggested by the weekly production index contained in the confidential weekly report of the Department of Commerce to Secretary. This index averaged slightly higher for the first half of May than in April. Similarly, the New York Times weekly business index reached 100 (estimated normal=100) for the week of May 5th and 100.8 for the May 12th week. This is the first time in six years--since the week of May 2, 1923--that this index has been up to the estimated normal line. The average of 100 for the first half of May compares with 98½ for April, suggesting, as does the Department of Commerce production index, that April gains have been fully retained or possibly extended somewhat.

National Income, Including Agriculture

In line with increased industrial production non-farm labor income has completely recovered the loss sustained in February. At an average of 71.7 percent of the 1923 average for the first four months of 1933, labor income was up 8 percent (after seasonal correction) from the last 4 months of 1932 and 8 percent when compared with the first 4 months of 1933. Despite improvement in labor income, some recession in total non-farm national income is indicated for April owing to a shift in the time of interest payments on the Federal debt. This shift, brought about by refunding notes on the Federal debt in a March to April drop of \$88,500,000 (98 percent) in Federal debt service as contrasted with an average March to April increase of \$88,500,000 (155 percent) during the preceding five years. The actual recession in income from business

of United States Government bonds from 1935 to 1936 is small. Total payments to holders of such bonds amounted to 252 million dollars from January to April inclusive as compared with 264 million dollars a year earlier--a recession of only 4.5 percent. in 1934.

Although early Farm Cash Income now which last fall had been expected to cut down sales this spring, nevertheless automobile production. Farm cash income including benefit payments turned upward slightly, after correction for seasonal, in March after having receded a total of 12 percent during the three preceding months. During April the renewed gain became pronounced owing largely to a month-to-month jump from 15 to 46 million dollars in benefit and adjustment payments. The April payments were almost up to the \$49,000,000 for April of last year, whereas only \$16,000,000 was paid in benefits during the first quarter in contrast with \$172,000,000 in the first three months of 1935. Except for two months, July of both 1933 and 1934, farm cash income in April was the highest since September 1930. As compared with the depression low, reached in February 1933, April cash income was up 104 percent, but was still 37 percent below the May 1928 peak. The contrast can best be illustrated by comparing this figure with the 1932 production of only 1,431,000 and with the record 1925 Retail Trade 5,622,000.

Responding to renewed improvement in farm cash income, retail sales in rural areas pushed upward in April to duplicate the December 1935 high point of the recovery to date. With this single exception rural retail trade, in April, was at the highest point since 1929, in which year sales averaged about 14 percent higher. It is obvious that revival in rural buying continues a potent influence in general economic recovery. Despite the greater recovery accomplished to date in rural than in urban trade (129 and 42 percent respectively from March 1933 to April 1936) the year-to-year gain thus far in 1936 has been as great for rural as for urban trade (8 percent each).

Some idea of the possible effect of the bonus on automobile sales. Department store sales suffered a severe setback in April after having scored a wide gain in the previous month. While these fluctuations are similar to those in estimated total non-farm national income (see chart on per capita income, excluding agriculture), weather conditions are an important influence in such month-to-month movements. With industrial production on the up-trend, there is reason to expect a continuation of general improvement in urban trade. Department store sales averaged 37 percent higher in 1929 than in April (seasonally corrected) of this year, the disparity being almost the same as for non-farm income which averaged 36 percent higher in 1929 than in April 1936.

Some idea of the possible effect of the bonus on automobile stocks at the latest date reported (March 31st, 1936) were the highest in 5 years and were more than 100,000 above the same date in 1935. The same was 15,000 and 32 respectively as compared with 1934.



of United States Government bonds from 1935 to 1936 is small. Total payments to holders of such bonds amounted to \$23 million dollars from January to April inclusive as compared with \$24 million dollars a year earlier--a reduction of only 4.2 percent.

### Farm Cash Income

Farm cash income including benefit payments turned upward slightly, after correction for seasonal, in March after having reached a total of 12 percent during the three preceding months. During April the renewed gain became pronounced owing largely to a month-to-month jump from 15 to 40 million dollars in benefit and adjustment payments. The April payments were almost up to the \$42,000,000 for April of last year, whereas only \$18,000,000 was paid in benefit during the first quarter in contrast with \$17,000,000 in the first three months of 1935. Except for two months, July of both 1933 and 1934, farm cash income in April was the highest since September 1930. As compared with the depression low, recorded in February 1932, April cash income was up 108 percent, but was still 37 percent below the May 1928 peak.

### Retail Trade

According to renewed improvement in farm cash income, retail sales in rural areas pushed upward in April to duplicate the December 1933 high point of the recovery to date. With this single exception rural retail trade, in April, was at the highest point since 1929, in which year sales averaged about 14 percent higher. It is obvious that revival in rural buying continued a potent influence in general economic recovery. Despite the greater recovery ascribed to date in rural than in urban trade (152 and 48 percent respectively from March 1932 to April 1935) the year-to-year gain rate for in 1935 has been as great for rural as for urban trade (8 percent each).

Department store sales suffered a severe setback in April after having scored a wide gain in the previous month. While these fluctuations are similar to those in unestimated total non-farm retail income (see chart on per capita income, excluding agriculture), weather conditions are an important influence in such month-to-month movements. With industrial production on the upswing, there is reason to expect a continuation of general improvement in urban trade. Department store sales averaged 37 percent higher in 1935 than in April (seasonally corrected) of this year, the disparity being almost the same as for non-farm income which averaged 38 percent higher in 1935 than in April 1932.

### Chief Influences in Industrial Recovery

Automobiles, construction and railroad equipment appear to have been the chief recovery influences thus far in 1936. Although early introduction of new models last fall had been expected to cut down sales this spring, nevertheless automobile production during the first 5 months reached the highest total since 1929. Production from January to May inclusive (May estimated on basis of weekly reports) exceeded 2,100,000 cars and trucks as compared with 1,998,000 through May of last year. These figures refer to production of the United States and Canada. Moving average of contracts is the highest point of recovery to date--in fact to the highest point of recovery to date--in fact to the highest point of recovery to date. While this gain is not large, addition of the last quarter of preceding years to these totals shows that production for the eight months ending May 1936 amounted to 3,232,000 as compared with 2,372,000 for the corresponding period a year earlier--a gain of 36 percent. Maintenance of such a gain through September would result in an October 1935 to September 1936 output of 4,700,000 units. The significance of such an out-turn can best be illustrated by comparing this figure with the 1932 production of only 1,431,000 and with the record 1929 production of 5,622,000. Only 1,431,000 as compared with 5,622,000 in 1929. The only year since 1929, despite an April. Though some evidence of a slackening in consumer purchases of autos has appeared (there was an 8 percent drop in retail sales after seasonal correction, from March to April) sales prospects appear especially good for the immediate future. Bonds in payment of the bonus will be received by veterans in great number after June 15th. What portion of the \$1,700,000,000 that individuals will receive in such bonds will be cashed at an early date is problematic, but the very fact that veterans and their organizations fought for early payment is suggestive of immediate use of a substantial percentage. Public utility construction is at about three times the rate of 1935. Some idea of the possible effect of the bonus on automobile sales may be had by assuming that 10 percent of the entire fund will be spent for automobiles (9 percent was estimated as so spent in 1931 when veterans were allowed to borrow up to 50 percent on their certificates). This would be sufficient to buy 250,000 new automobiles outright at the current estimated average retail price of \$680 per car. Some will buy used cars but others will have cars to trade in and many will make partial down payment, financing the remainder. Considering these facts, also that some bonds will be held, a gain of 250,000 in new car sales, due to the bonus, does not seem unlikely. However, this would not necessarily be reflected in as large an increase as this in production as dealer stocks at the latest date reported (March 31st, 1936) were the highest in 5 years and were more than 100,000 above the same date in 1935. Dealer stocks were 12,500 and 12,500 respectively as compared with only



Other Influences in Industrial Recovery

Automobiles, communication and railroad equipment appear to have been the chief recovery influences this far in 1933.

Although early introduction of new models last fall had been expected to cut down sales this spring, nevertheless automobile production during the first 3 months reached the highest total since 1923. Production from January to May inclusive (May not-  
nated on basis of weekly reports) exceeded 2,100,000 cars and trucks as compared with 1,980,000 through May of last year. These figures refer to production of the United States and Canada.

While this gain is not large, addition of the last quarter of preceding years to these totals shows that production for the eight months ending May 1933 amounted to 8,332,000 as compared with 8,372,000 for the corresponding period a year earlier--a gain of 35 percent. Maintenance of such a gain through September would result in an October to September 1933 output of 8,700,000 units. The significance of such an out-turn can best be illustrated by comparing this figure with the 1932 production of only 1,421,000 and with the record 1928 production of 2,022,000.

Though some evidence of a slackening in consumer purchases of autos has appeared (there was an 8 percent drop in retail sales after seasonal correction, from March to April) sales prospects appear especially good for the immediate future. Though no payment of the bonus will be received by veterans in great number other of the bonus will be received by 21,700,000 other individuals June 1933. What portion of the 21,700,000 other individuals will receive in such bonds will be issued at an early date is problematic, but the very fact that veterans and their dependents are being looked for early payment is suggestive of immediate use of a substantial percentage.

Some idea of the possible effect of the bonus on automobile sales may be had by assuming that 10 percent of the entire fund will be spent for automobiles (9 percent was estimated as so spent in 1931 when veterans were allowed to borrow up to 50 percent on their certificates). This would be sufficient to pay \$20,000 new automobiles outright at the current national average retail price of \$200 per car. Some will pay used cars but others will have cars to trade in and many will make partial down payments. Assuming the remainder, considering these facts, also that some bonds will be paid, a gain of \$10,000 in new car sales, due to the bonus, does not seem unlikely. However, this would not necessarily be reflected in as large an increase as this in production as dealer stocks at the latest date reported (March 31st, 1933) were the highest in 5 years and were more than 100,000 above the same date in 1932.



Certainly the bonus, continued improvement in industrial production, further gains in farm income from sales and resumption of large scale benefit payments combine to create a favorable outlook for automobile sales. Thus this industry may be counted upon to continue as a leading recovery influence into the third quarter at least.

### Construction

After receding somewhat from the peak reached late last year, residential building has resumed its upward trend (see chart). The April advance carried the dollar volume (3 month moving average of contracts) to the highest point of recovery to date--in fact to the highest point since November 1931.

The shortage of new homes created by low building activity of the past five years, together with expanding national income, rising rents and low interest rates, makes an ideal situation for continuation of improvement in residential buildings. Such improvement may eventually reach boom proportions though this stage is a considerable distance ahead. The aggregate value of residential contracts awarded during the 5 years, 1931-5, was only \$2,068,000,000 as compared with \$2,788,000,000 in 1928, the peak year. Thus, despite an April 1933 to April 1936 recovery of 250 percent, contracts awarded for the month were still less than 30 percent of the 1928 average rate. Residential contracts awarded during the first half of May were equivalent to 80 percent of those for the entire month last year.

Building and construction other than residential is also at a much higher level than at this time last year. Contracts awarded during the first 4 months totaled \$590,000,000--a gain of 91 percent over the \$308,000,000 awarded during the corresponding period of 1935. Public utility construction is at about three times the rate of early 1935.

### Railroad Equipment and Supplies

According to the Railway Age, expenditures by the railroads for equipment and materials, other than fuel, totaled \$230,000,000 in the first 4 months of 1936--a year-to-year gain of 80 percent. As compared with the corresponding period of 1929, these expenditures are still small, being down 48 percent, but they are 229 percent above the \$70,000,000 spent during the initial 4 months of 1933.

Rail orders during the January-April 1936 period totaled 445,000 tons as compared with 212,000 in the corresponding period of 1935. Purchases of freight cars and steam locomotives during the first quarter were 13,500 and 52 respectively as compared with only

Certainly the house, containing improvements in industrial production, further gains in farm income and resumption of large scale business operations to create a favorable outlook for automobile sales. This industry may be counted upon to continue as a leading recovery influence into the third quarter at least.

### Construction

After recording a setback from the peak reached late last year, residential building has returned the upward trend (see chart). The April advances carried the dollar volume 7 month moving average (in constant) to the highest point of recovery to date--in fact to the highest point since November 1931.

The shortage of new houses created by low building activity of the past five years, together with expanding national income, rising wages and low interest rates, makes an ideal situation for continuation of improvements in residential building. Such an improvement may eventually reach boom proportions through this stage in a considerable distance ahead. The aggregate value of residential contracts awarded during the 8 years, 1931-8, was only \$2,062,000,000 as compared with \$2,786,000,000 in 1932, the peak year. Thus, 4 months in April 1932 to April 1938 recovery of 280 percent, contracts awarded for the same were still less than 30 percent of the 1932 average rate. Residential contracts awarded during the first half of '37 were equivalent to 80 percent of those for the entire month of last year.

Building and construction other than residential is also a much higher level than at this time last year. Contracts awarded during the first 4 months totaled \$880,000,000--a gain of 51 percent over the \$580,000,000 awarded during the corresponding period of 1936. While utility construction is at about three times the rate of early 1936.

### Railroad Equipment and Supplies

According to the Railway Age, expenditures by the railroads for equipment and materials, better than last year, totaled \$280,000,000 in the first 4 months of 1937--a year-to-year gain of 50 percent. As compared with the corresponding period of 1936, these expenditures are still small, being down 45 percent, but they are 225 percent above the \$100,000 spent during the initial 4 months of 1933.

Rail orders during the January-April 1937 period totaled \$48,000,000 as compared with \$15,000 in the corresponding period of 1935. Turnover in freight cars and other locomotives during the first quarter were 18,400 and 52 respectively as compared with only



432 freight cars and one steam locomotive during the 1935 first quarter. Since railway buying is still small as compared with the pre-depression period, room is ample for continuation of revival. Though the railroads are not yet in financial position to buy according to needs, freight traffic (see weekly chart) has reached the highest spring peak since recovery started and conditions appear favorable to an emergence from red earnings figures for the first year since 1931. Railroad buying has been of considerable benefit to the steel industry thus far in 1936.

### Steel Output

The three industries discussed above--automobiles, construction and railways--accounted for 50 of all steel products required in 1930, for 45 percent in 1932, and for 45 percent in 1935. The share of the automobile industry in 1935 was 25 percent as compared with 16 and 17 percent respectively in 1930 and 1932.

With automobile production holding somewhat above last year's level (see weekly production chart) and with both construction activity and railway buying up 80 percent, substantial improvement in the manufacture of steel products is to be expected. Outside of these sources of demand the steel container industry and agriculture constitute the next most important channels of steel consumption. Demand from both has been active this spring.

Steel ingot production each month through April of this year exceeded any corresponding month since 1930. The year to year gain for the 4 months amounts to 13 percent with April, affected by demand from flood areas, showing a 49 percent gain. The favorable situation developing in the heavy industries using steel products has led to an advance in steel prices to take effect in the third quarter.

The general improvement in steel and other durable lines is of particular significance since further economic recovery is largely dependent on revival here, where unemployment is most prevalent.

### Foreign Conditions

Until Italy's annexation of Ethiopia is officially recognized by European governments, recurrence of disquieting developments must be expected such as those in Egypt and Palestine, supposedly fomented by Italy.

France continues to lose gold while supplies in the United States continue to grow. From May 7th, 1935 to May 5th, 1936, the





gold stock of France dropped from 79,762 million francs to 57,515 million and the reserve ratio from 80 to 62 percent. Furthermore, a debt of 3 billion francs, payable in gold has been contracted through British credits to the Bank of France. It appears probable that France, despite her valiant though possibly ill advised attempt to escape devaluation, will eventually be forced to take such action. Since France is the principal gold bloc country, franc devaluation would no doubt be accompanied by similar action on the part of Swiss and Dutch authorities.

If a breaking down of the gold block were to precipitate further depreciation in sterling the tendency on United States prices (already weakening) would be deflationary.

#### Commodity Prices and Living Costs

From the week of April 25th to that of May 23rd, wholesale commodity prices receded  $3\frac{1}{4}$  percent, continuing the decline of the past 3 months which now totals over 3 percent. Principal weakness continues to center in the farm and food groups, the recession in other prices having amounted to less than  $\frac{1}{2}$  percent during the past 3 months.

The farm price index for May was 103 (1910-14=100) as compared with 105 a month earlier and 110 as late as last December. It is necessary to go back to August 1934 to find farm prices under 100. It appears probable that 1936 crops will be marketed at lower prices than prevailed over the previous two marketing seasons unless unforeseen conditions bring about low acreage yields. As yet, farm income from marketings is still above last year and delayed benefit payments are flowing out in volume.

As anticipated, higher rents and other living items are being about offset by lower food prices with the result that living costs remain about stationary. The living cost index had fluctuated between 80 and 81 percent of the 1924-9 average for 15 consecutive months up to April and in May was probably down close to the lower limit of this range. Stability in living costs permits full reflection of expanding consumer income in increased buying power and thus creates larger demand for farm products. Thus the greater volume of sales of farm products tends to offset the effect of lower prices.

# SECRET

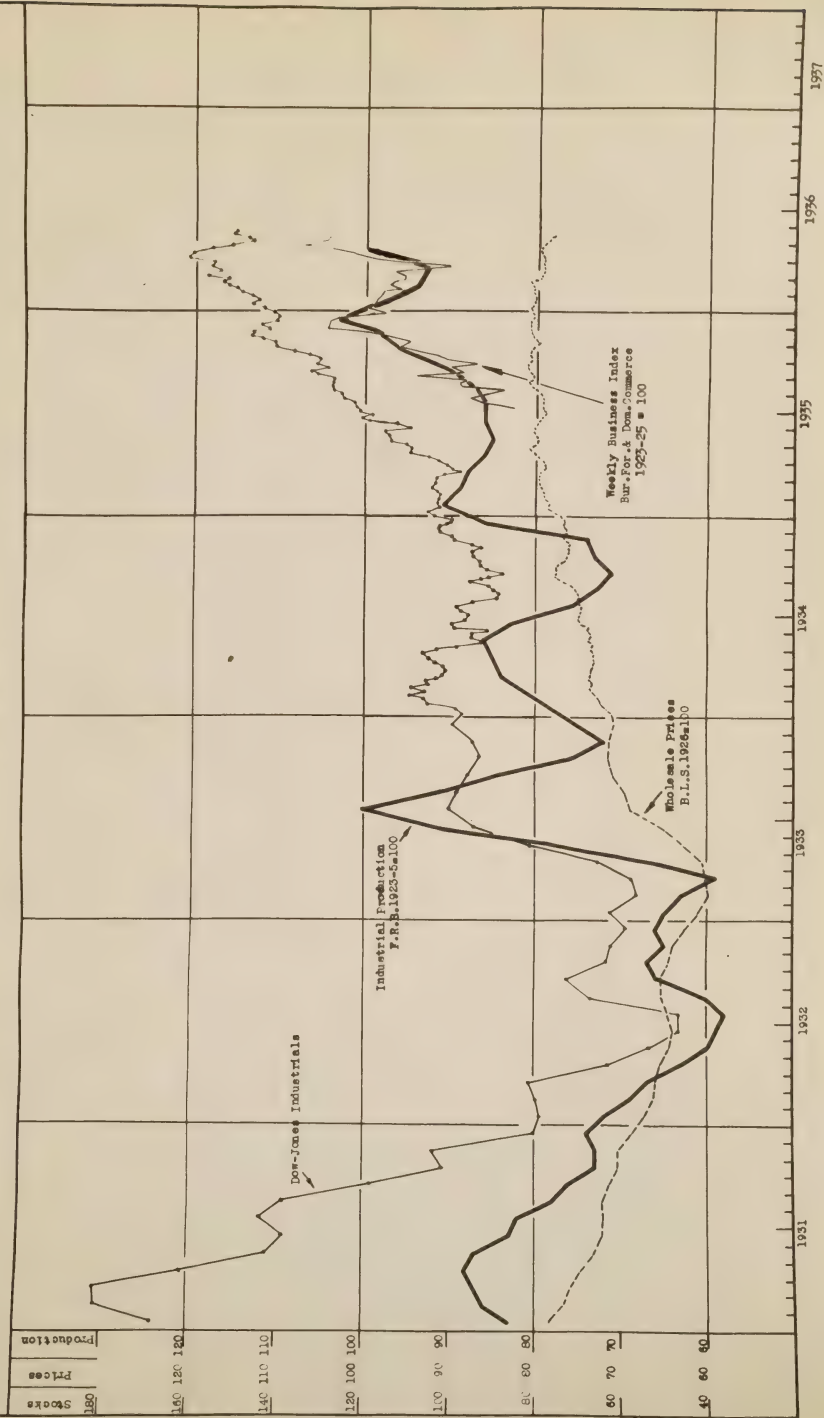
Item	Quantity	Unit	Price	Total	Remarks
100	100	lb	1.00	100.00	100 lb of material
200	200	lb	2.00	400.00	200 lb of material
300	300	lb	3.00	900.00	300 lb of material
400	400	lb	4.00	1600.00	400 lb of material
500	500	lb	5.00	2500.00	500 lb of material
600	600	lb	6.00	3600.00	600 lb of material
700	700	lb	7.00	4900.00	700 lb of material
800	800	lb	8.00	6400.00	800 lb of material
900	900	lb	9.00	8100.00	900 lb of material
1000	1000	lb	10.00	10000.00	1000 lb of material
1100	1100	lb	11.00	12100.00	1100 lb of material
1200	1200	lb	12.00	14400.00	1200 lb of material
1300	1300	lb	13.00	16900.00	1300 lb of material
1400	1400	lb	14.00	19600.00	1400 lb of material
1500	1500	lb	15.00	22500.00	1500 lb of material
1600	1600	lb	16.00	25600.00	1600 lb of material
1700	1700	lb	17.00	28900.00	1700 lb of material
1800	1800	lb	18.00	32400.00	1800 lb of material
1900	1900	lb	19.00	36100.00	1900 lb of material
2000	2000	lb	20.00	40000.00	2000 lb of material

100 - 100 lb of material  
 200 - 200 lb of material  
 300 - 300 lb of material  
 400 - 400 lb of material  
 500 - 500 lb of material  
 600 - 600 lb of material  
 700 - 700 lb of material  
 800 - 800 lb of material  
 900 - 900 lb of material  
 1000 - 1000 lb of material  
 1100 - 1100 lb of material  
 1200 - 1200 lb of material  
 1300 - 1300 lb of material  
 1400 - 1400 lb of material  
 1500 - 1500 lb of material  
 1600 - 1600 lb of material  
 1700 - 1700 lb of material  
 1800 - 1800 lb of material  
 1900 - 1900 lb of material  
 2000 - 2000 lb of material



# PRODUCTION AND PRICES

(Industrial Production, Stock and Commodity Prices)







## 1929 = 100



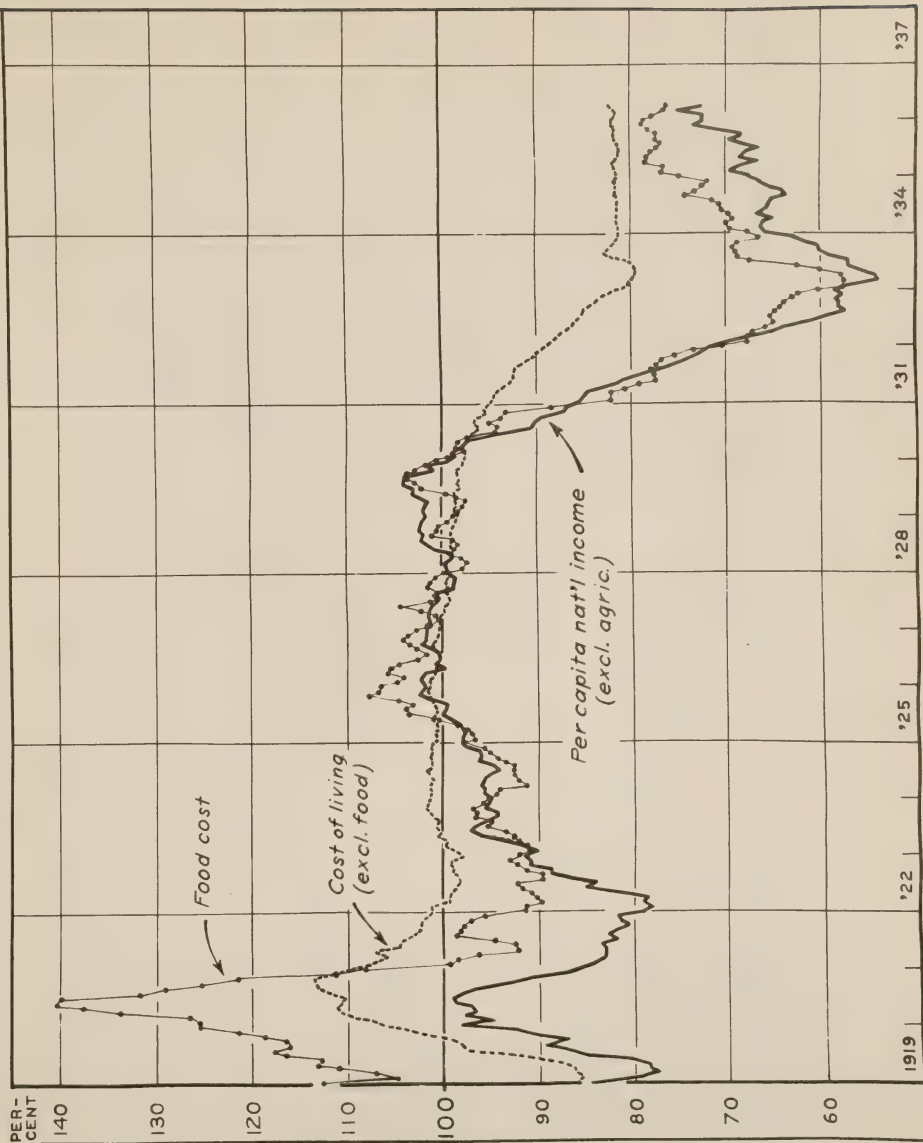
MEG 28770 A.A.A





# NATIONAL INCOME, EXCLUDING AGRICULTURE, PER CAPITA AND LIVING COSTS, 1919-36

(1924-29 = 100)

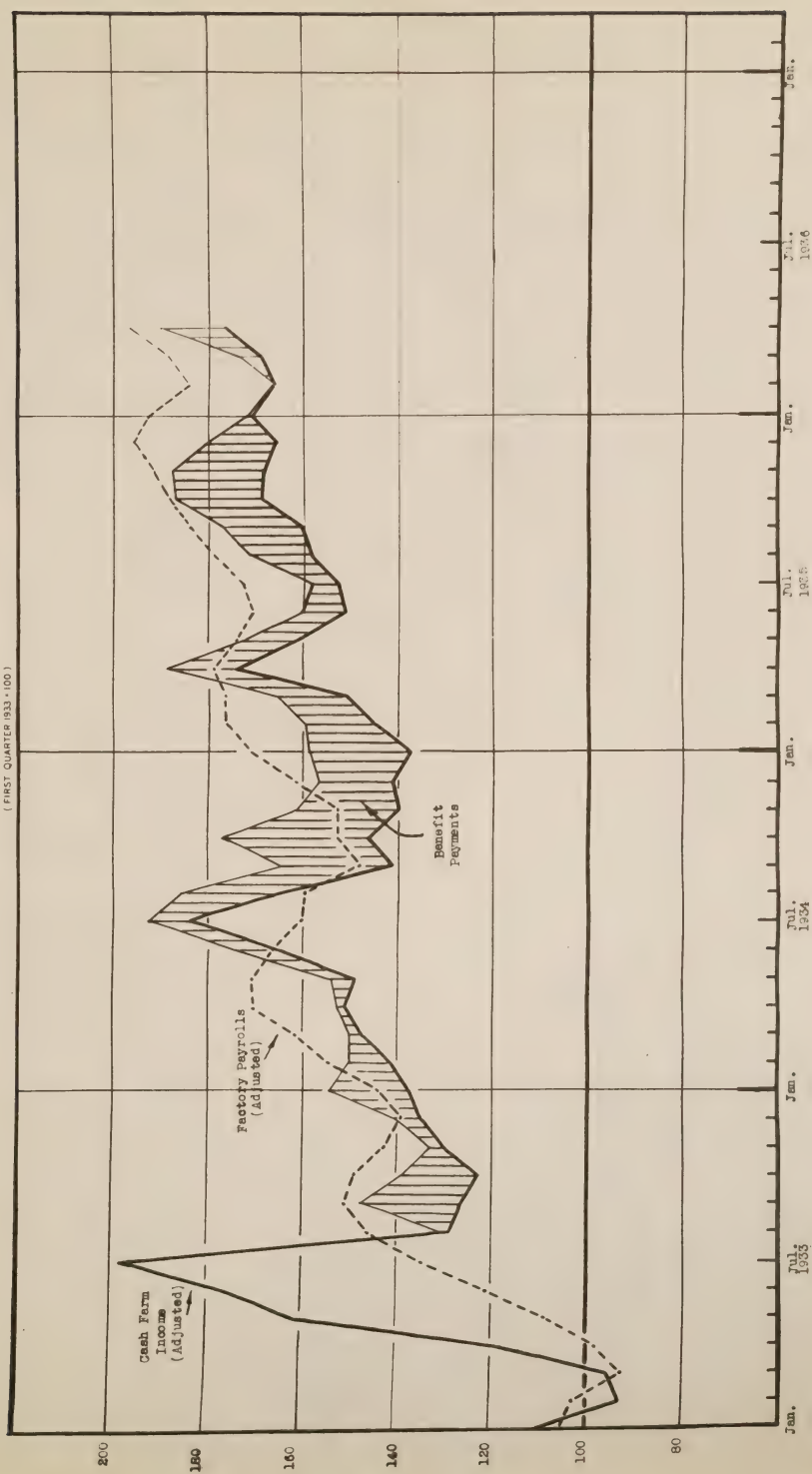






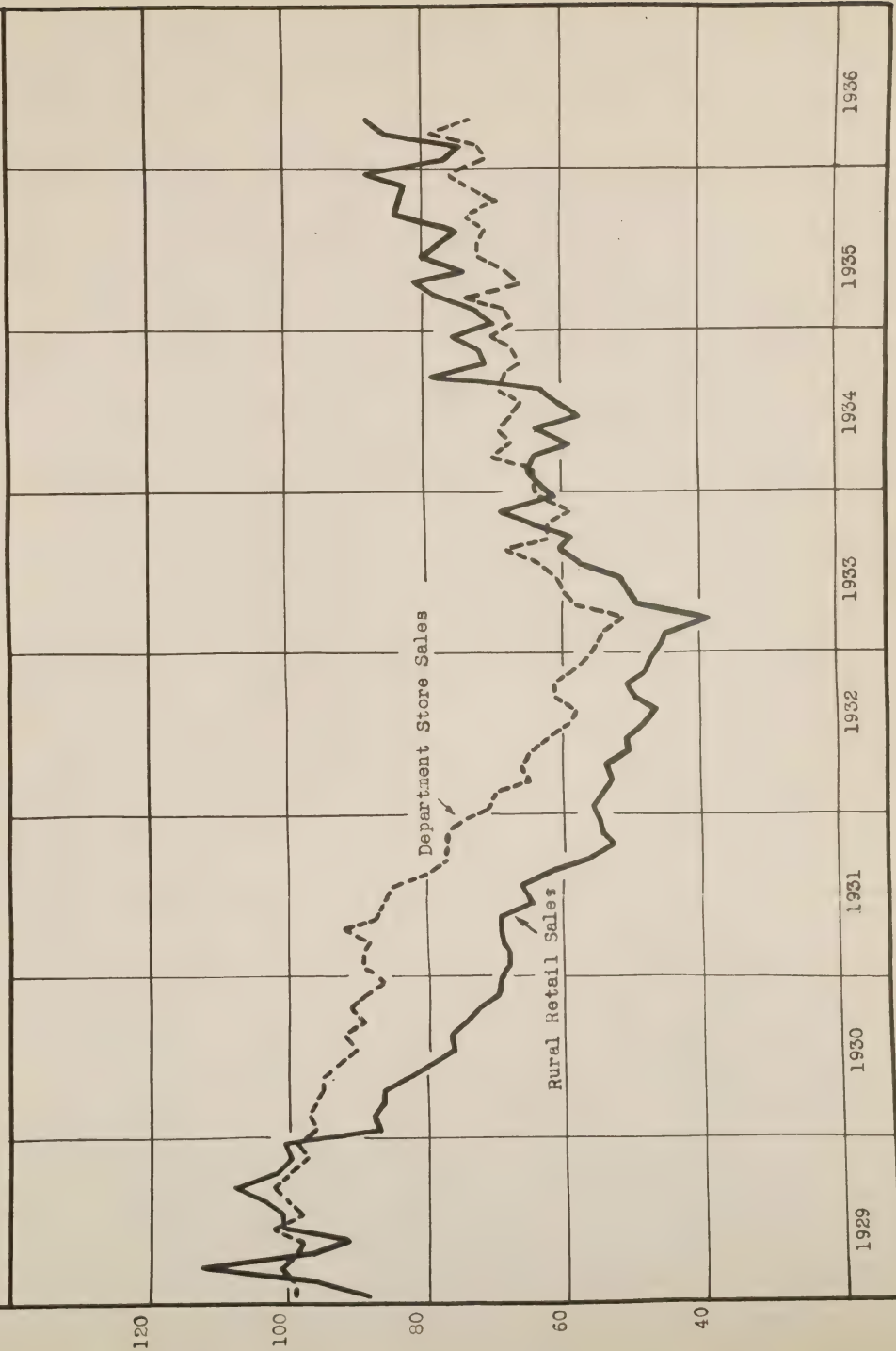
# FARM INCOME AND FACTORY PAYROLLS SINCE JANUARY 1933

(FIRST QUARTER 1933 = 100)





INDEXES OF RETAIL SALES  
Adjusted for Seasonal Variation.  
1929 = 100

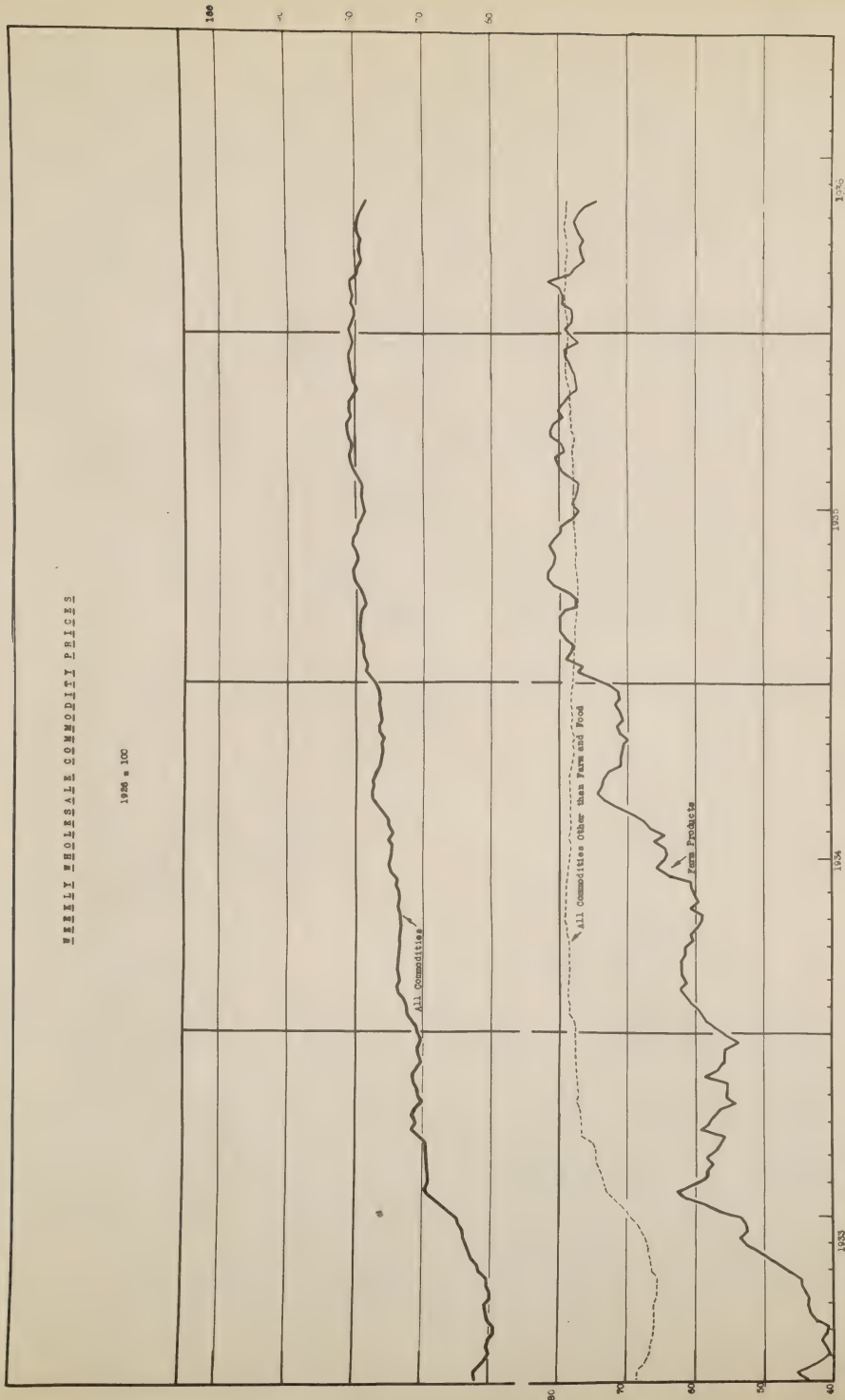






# UNITED STATES COMMODITY PRICES

1926 = 100

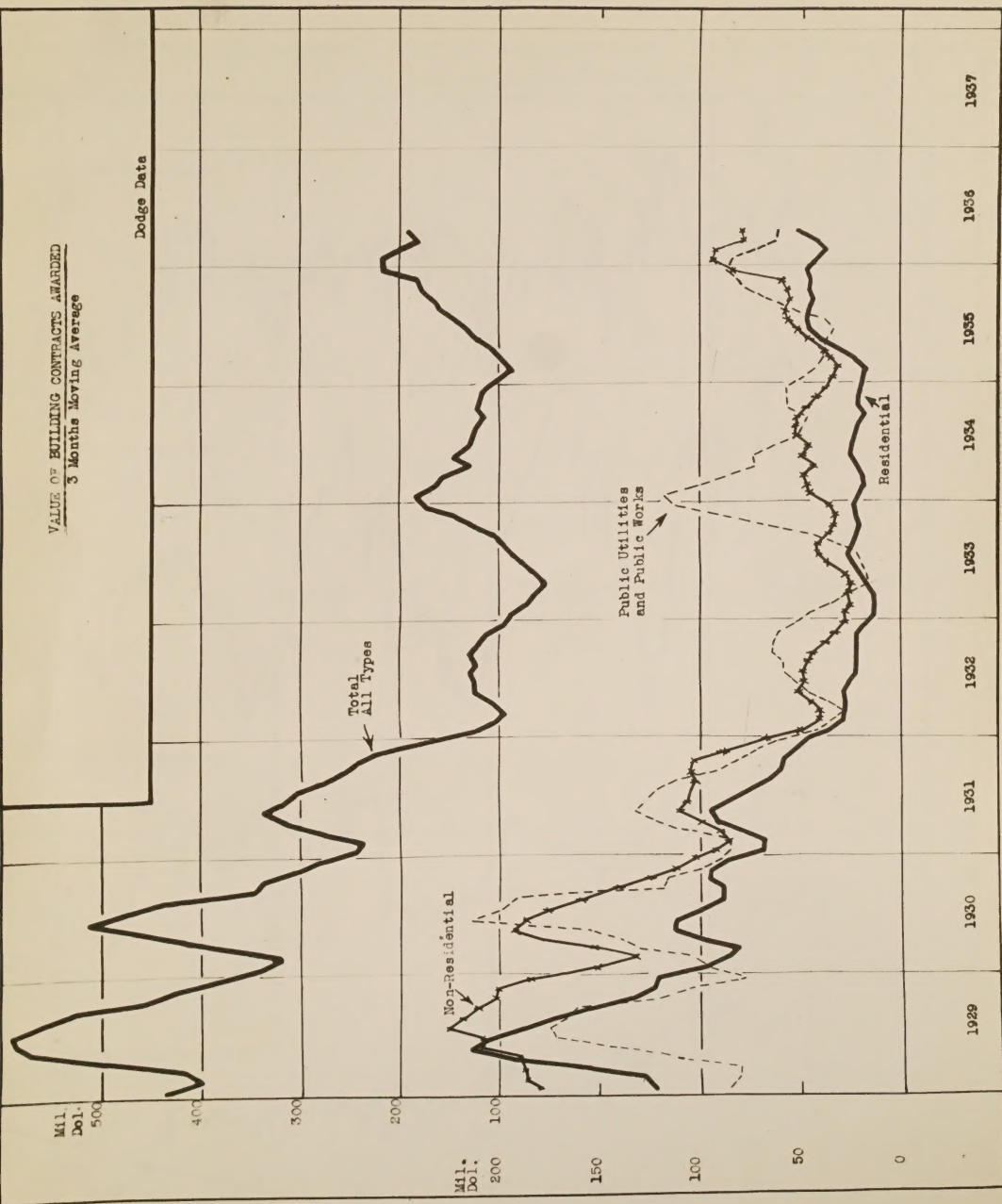






VALUE OF BUILDING CONTRACTS AWARDED  
3 Months Moving Average

Dodge Data





# WEEKLY BUSINESS INDICATORS

